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SUBJECT: RESPONSE: IMPACT OF RISING FOOD/AGRICULTURAL
COMMODITY PRICES - BOSNIA

REF: A. STATE 39410

[1B](#). 07 SARAJEVO 1820
[1C](#). 07 SARAJEVO 2528

[11](#). Summary. Rising food prices in Bosnia and Herzegovina (BiH) contributed to the overall 4.9% inflation rate in 2007 (Central Bank figures). As a net food importer, BiH experienced across the board food price increases, but particularly troublesome was the effect on the price of bread, a staple among poorer families. There has been no civil unrest in response to food prices, although there were rumors of hoarding back in December, most likely caused by a combination of rising prices and fear of unrelated political turmoil. The amount of land under cultivation did not increase in response to higher prices, mainly because the price of inputs rose significantly as well, but also due to unresolved landmine and land tenure issues remaining from the war. Government response has been varied, due to the fragmentation of responsibility between the state (national) and entity (sub-national) levels. Responsibility for agriculture rests at the entity level, and the two entity governments of the Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH) have increased their agricultural support to farmers. They have also set varying price ceilings and/or maximum retail margins to try and keep prices under control. End Summary.

Supply and Demand

[12](#). Bosnia imports two-thirds of its food supply. Global price increases therefore had an impact on inflation in 2007, and this was exacerbated by severe drought last summer which affected wheat, corn, fruit and vegetable production regionally. Bread is an important staple in Bosnia, particularly in poorer households, and the country imports 60-70% (between 350-400k tons) of its wheat each year. Although its domestic supply was harvested prior to the drought last summer (around 150k tons), BiH had trouble meeting the rest of its needs as global wheat prices continued to rise and neighboring wheat exporting countries faced shortages of their own.

[13](#). The most essential food/agricultural products in Bosnia experienced varying degrees of price increases over the past year: in addition to wheat (up 40%), corn and barley were up 10%, fruits and vegetables up 40%, beef and eggs 10-15%, chicken 5%, milk 20%, cheese 40%, vegetable oil 90%, and butter 100%. The only consumption shift seen so far is a substitution of chicken for beef, and a general increase in the purchase of cheaper and lower-quality items.

[14](#). There has been little increase in land usage for food production, partly because of landmine and land tenure issues

left over from the 1991-1995 war. In fact, land under winter wheat cultivation in 2007-2008 was 10% lower than the previous season because of the increase in the price of inputs (seeds up 10-30%, fertilizer 50-100%). Corn production is stable, and land under corn cultivation is projected to rise by 5% this season due to increased agricultural support. Still, it is likely that producers will reduce the application of fertilizer and agricultural chemicals because of their increased prices, so yields may decrease.

¶5. Food inventories are sensitive issues in Bosnia, as they are maintained at the sub-national entity level (Note: there are two entities in Bosnia: the Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH). End note.). It is assumed that commodity reserves are low because the RS is already negotiating with neighboring Serbia for the second time to borrow wheat until the next harvest, and the Federation Directorate for Commodity Reserves is under investigation for reporting higher stocks in their books than are available. There has been no biofuel production in Bosnia yet, although the first such factory is currently under construction in the RS to use rapeseed and soy.

Economic Impact/Policy Response

¶6. According to poverty reduction studies in Bosnia, 20% of the population is below the poverty line. They are the most affected by these food increases. The two entities have responded in different ways. The FBiH has tried several unsuccessful policies - from concluding informal agreements setting price ceilings to releasing commodities from the reserves - all of which have had little impact. The RS borrowed corn from Serbia last year and imposed rigorous penalties on companies and individuals breaking the law on

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maximum retail margins. Social assistance for the most vulnerable groups is more likely what is needed, but much of the country's social assistance funding is spent on groups with stronger lobbies (such as war veterans).

Policy Proposals

¶7. The 2007 increase in food prices follows 2006's 6.5% inflation, which was brought on by the introduction of a Value-Added Tax (VAT). Part of the increase in revenue from the VAT was intended for use on social protections for vulnerable populations. This never happened, making rising food prices in 2007 particularly difficult for the poor. A social policy response is needed to address the needs of Bosnia's poorest families. In addition, the responsibility for agriculture in Bosnia is relegated to the entity-level governments. A state (national)-level agricultural strategy is needed to strengthen the agriculture sector, with support to improved food quality and safety, rural development and agricultural-environmental measures.

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